AR36

QUESTOR

1981 ANNUAL REPORT

QUESTOR

Questor Corporation
One John Goerlich Square, Toledo, Ohio 43691
419/259-3461

QUESTOR TODAY

Questor Corporation is a multinational, diversified manufacturer of consumer products with 17 manufacturing plants, 14 in the U.S. and three in other countries; approximately 4,300 employees worldwide and 5,100 shareholders.

The principal business segments of Questor are Spalding recreational products; Evenflo and Juvenile Furniture products for infants and very young children; and Leslie-Locke home environmental products. Product lines include:

Spalding. These operations manufacture, market and license Spalding products for sports, recreation and leisure pursuits worldwide. Proprietary products include golf balls and clubs, inflated balls for team sports and racquets and balls for court sports. Licensed products include apparel for sports and casual wear, athletic shoes and socks, family game and recreational equipment, fashion and home accessories and sports toiletries. All are marketed under the Spalding brand name.

Evenflo. These operations manufacture and market Evenflo standard and disposable baby bottles, nipples, breast feeding equipment and other products related to infant feeding and care, and distribute them worldwide. In certain markets abroad manufacturers are licensed to produce and distribute selected products under the Evenflo brand name.

Juvenile Furniture. These operations manufacture and market juvenile furniture and equipment in the U.S. for transporting, care and comfort of infants and young children up to the age of about three years. Leading brand names are Kantwet, Infanseat, Lullabye, Baby Line, Maxi-Taxi, Dyn-O-Mite, Sidewinder and The One-Step.

Home Environmental. These operations manufacture and market products under the Leslie-Locke name in the U.S. and Canada for energy conservation, remodeling of residential and commercial buildings and for new construction. Principal products are ceiling fans; powered and static ventilators; ornamental iron railings; columns and security products; ceiling grid systems and acrylic window well covers. Leading brand names are Play It Again Sam, Ajust-A-Rail, Versa, Wind-O-Guard, Quali-tee and Securitee.

FINANCIAL HIGHLIGHTS

	1981	1980
	(Thousands of dollars, except per share figures)	
Operating Results		
Continuing operations		
Net sales	$ 273,675	272,145
Earnings before nonrecurring expense and income taxes	16,612	7,418
Nonrecurring expense	(9,600)	(9,300)
Earnings (loss) before income taxes	7,012	(1,882)
Earnings (loss)	1,212	(1,482)
Earnings (loss) per common share	.10	(.17)
Discontinued Automotive segment		
Loss	(21,577)	(11,106)
Loss per common share	(2.20)	(1.15)
CONSOLIDATED OPERATIONS		
Net loss	(20,365)	(12,588)
Net loss per common share	$ (2.10)	(1.32)
Financial Position		
Working capital	$ 108,157	118,724
Net property, plant and equipment	33,720	74,044
Other assets	5,400	7,127
	147,277	199,895
Deferred income taxes	2,819	4,163
Long-term debt	32,895	63,748
	35,714	67,911
Shareholders' equity	$ 111,563	131,984
Other Data		
Prior preferred stock outstanding	103,052	103,063
Common stock outstanding (weighted average shares 9,776,519 and 9,704,049)	9,761,956	9,723,400
Shareholders	5,100	5,700
Employees of continuing operations	4,300	4,900

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TO OUR SHAREHOLDERS

1981 was a significant year of change for your company. Major management, organizational and asset redeployment initiatives were taken to improve liquidity and to position the company for acceptable performance in the future. These changes included:

- Exit of the automotive segment with the sale of the domestic automotive operations and adoption of a plan to dispose of non-U.S. automotive operations;
- Implementation of a plant realignment and consolidation effort in the Spalding recreational and Leslie-Locke home environmental segments; and
- Shift to a decentralized entrepreneurial management structure for the continuing business segments with the Corporate office functioning in the areas of centralized financial control, planning and investment evaluation.

Financial Results

The Company reported a net loss for the year of $20,365,000, equal to $2.10 per share, compared to a loss of $12,588,000, or $1.32 a share in 1980.

The 1981 loss reflects the sale of our domestic automotive operations and the adoption of a plan to dispose of non-U.S. automotive operations in 1982. The sale of the domestic automotive operations was effective October 1, 1981 and the non-U.S. operations results were excluded from consolidated operations at that time and established at net realizable values for financial reporting purposes. These actions resulted in an after-tax loss in the year 1981 of $24,919,000. Additionally, a nonrecurring charge of $9,600,000 before tax was made to provide primarily for the cost of plant realignment and consolidation in the continuing operations of our Spalding recreational and Leslie-Locke home environmental segments. The extent of such changes makes comparisons with prior periods difficult and effectively establishes Questor as a new, though smaller, company.

Sales for the continuing operations were $273,675,000 in 1981 as compared to $272,145,000 in 1980. After excluding ski operations divested late in 1980, comparable 1981 sales increased by 11%. Earnings from continuing operations before nonrecurring expense and taxes increased in 1981.

Corporate Redeployment Program

The divestiture of the automotive segment and the business realignment measures in the Spalding recreational and Leslie-Locke home environmental segments were made to permit the achievement of acceptable return on investment levels and to provide funds for growth and expansion. In the aggregate, cash realization under these programs will exceed $65,000,000. The asset reduction programs in the Spalding and the Leslie-Locke segments will be accomplished under a comprehensive plan to be substantially completed during 1982. Total assets of the company were reduced during the year by approximately $93,000,000, debt of $37,000,000 was repaid, and cash reserves increased by $34,000,000. As a result, your company enters 1982 in a strong and liquid financial position.

Highlights of Continuing Operations

All continuing businesses were profitable during 1981 with Spalding and Juvenile (Evenflo and Furniture) achieving record performances, while Leslie-Locke's results were depressed.

Spalding—Net sales of the recreation segment in 1981 were $142,093,000, down from $160,499,000 in 1980, as a result of the divestiture of the ski operations and pruning of unprofitable products. Operating profit for Spalding increased to $11,435,000 from $6,826,000 in 1980. Volumes and operating results for the continuing principal product categories improved during 1981.

Juvenile—The Juvenile segment reflected record performance for both the Furniture and Evenflo businesses. Increased births and success with innovative and functional new products for infants were the principal contributing factors. Sales in the Juvenile segment increased 17% to $90,741,000 from $77,232,000, with operating profit advancing by 29% to $12,451,000 in 1981.

James D. Milligan (left)
President, Chief Executive Officer

Dan W. Lufkin
Chairman of the Board

CORPORATE OPERATING STAFF—*Left to right,* Stephen J. Dryer, *controller;* Paul L. Whiting, *vice president-finance;* John G. Zimmerman, *treasurer;* D. F. Mitchell, *president, Juvenile Furniture;* Thomas F. Schretter, *president, Leslie-Locke;* George A. Dickerman, *president, Spalding Sports Worldwide;* John Kostantaras, *president, Evenflo Worldwide;* Donald J. Byrnes, *senior vice president, chief operating officer;* F. L. Yocum, *director of corporate development;* John Goerlich, *a founder and member of the board of directors;* E. L. Muckensturm, *director of employee relations. Seated front:* James D. Milligan, *president, chief executive officer. Not in photo:* John T. Nolan, *secretary and general counsel.*

Leslie-Locke—Operating results of Leslie-Locke were less than the prior year due to margin pressures and volume resistance at trade and consumer levels despite a sales gain of 19%. Although sales increased in 1981, the earnings performance of Leslie-Locke reflected lower than planned sales due to depressed consumer spending and economic conditions in the housing and home improvement areas.

Near Term Management Objective

From the standpoint of strategy, 1981 was a transitional year with a radical improvement in financial position as evidenced by the substantial cash reserve ($43.8 million), strong working capital ratio (2.5 to 1), and an improved debt as a percent of capitalization ratio (27.0%). As we substantially conclude the divestiture plans and asset realization programs in 1982, attention will be maintained on cash flow opportunities inherent in our continuing businesses.

Outlook—1982

Although the economy is in a severe recession, our financial strength and inherent flexibility will enable us to cope with this difficult environment. Our consumer businesses are expected to perform at acceptable levels in 1982 and are well positioned to benefit from any recovery in overall consumer purchasing and a more buoyant economy.

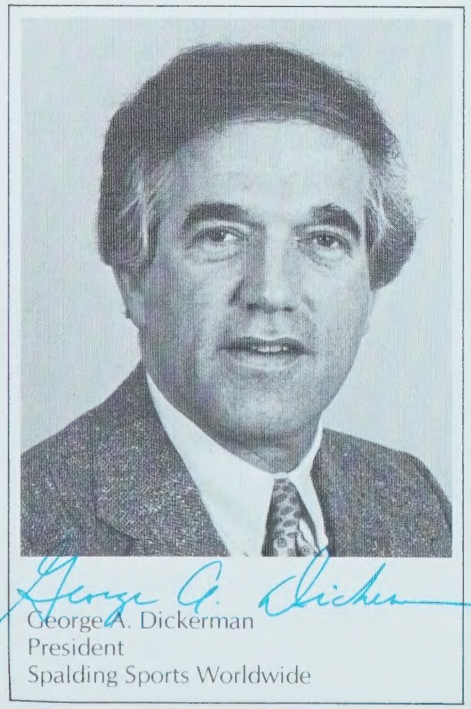
Acknowledgement

We acknowledge with sincere appreciation the efforts and contributions extended to our Company over the years by Messrs. Grieve, Plank and Stranahan who will not stand for re-election to our Board of Directors. We are excited about our new directions and believe in the capabilities, commitment, creativity and loyalty of the Questor employees who will contribute to the achievement of our goals. We also thank each of our employees, shareholders, suppliers, customers, directors and many other associates and friends for their continued cooperation and support.

Dan W. Lufkin
Chairman of
the Board

James D. Milligan
President and Chief
Executive Officer

February 9, 1982



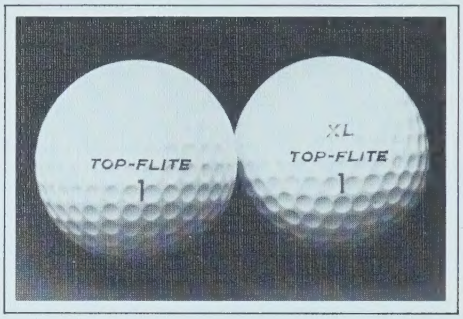
George A. Dickerman
President
Spalding Sports Worldwide

Golf ball and club sales, internal improvements, lead Spalding to strong performance for 1981

With substantial increases in the sale of golf balls and clubs, and with a highly effective internal program of cost reduction and productivity enhancement, Spalding established a strong performance in 1981.

Sales of virtually all of Spalding's major sporting goods lines advanced for the year. In golf balls, Spalding brought into full production additional manufacturing capacity to keep pace with its record ball sales worldwide. For the first time in many years, Spalding's top grade golf clubs moved into the leading market position among U.S. premium clubs. Its premium golf clubs were also gaining a significantly larger share of the import market for Spalding in Japan. Increases in sales and profitability of popularly priced tennis rackets were achieved as the U.S. tennis market stabilized. In team sports equipment, Spalding's leather and quality rubber basketballs further secured large shares of the U.S. market. Spalding's J5V football was widely used in U.S. colleges and was the game ball in seven year-end bowl games, including the Rose, Orange, and Sugar Bowls.

Three of Spalding's touring golf pros, Curtis Strange, Bobby Clampett and Johnny Miller, represented Spalding exceptionally well as they placed among the top 10 scoring leaders in the Tournament Players Association in 1981.



Top-Flite and Top-Flite XL golf balls continue as largest selling top grade balls in the U.S.

Of all of its products, Spalding's golf balls were the leading product line for the year. At year end, Spalding's Top-Flite and Top-Flite XL golf balls again comprised the largest selling top grade golf balls in the U.S. This status was maintained despite the introduction, with heavy

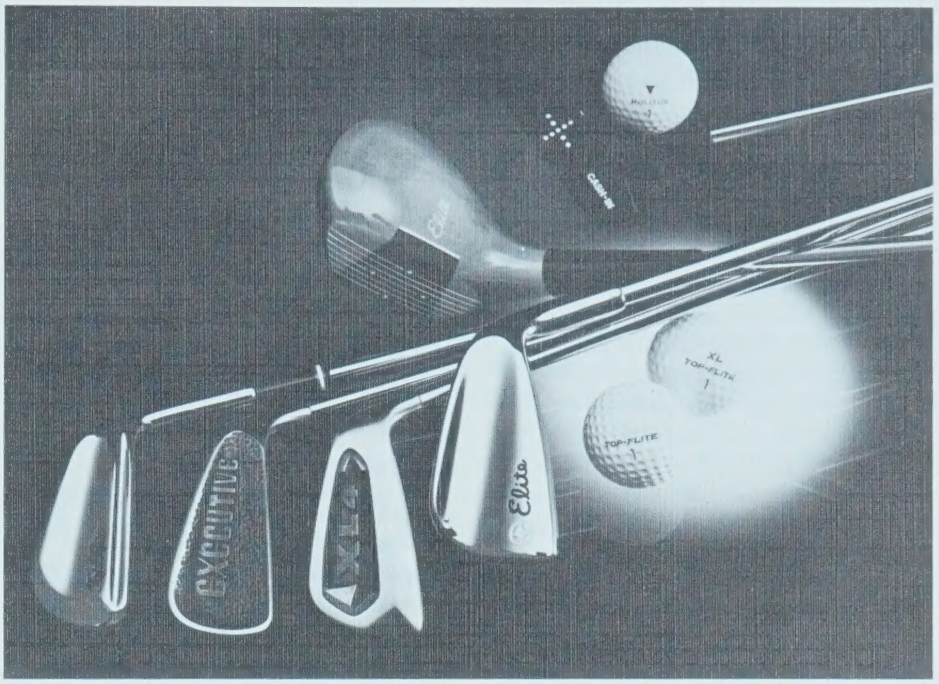
QUALITY CIRCLES—Spalding factory employees have formed Work Action Teams to improve quality and productivity. This meeting concerned defect avoidance for work in progress.

advertising and promotional outlays, of several new competitive balls.

Far from resting on those laurels, Spalding introduced new models of the Top-Flite and Top-Flite XL balls at the annual meeting and merchandise show of the Professional Golf Association in January, 1982. The new models incorporate newly developed, higher energy formulations of core and cover materials and new dimple geometry that enhances the aerodynamic characteristics of both balls so their total distances are extended by averages of 10 yards.

In the golf club market, the thrust for the upward movement of Spalding's clubs into the leadership position among premium grades resulted primarily from incremental sales of the new XL4 clubs. This line, introduced in September, 1980, is now Spalding's top selling line of premium clubs in pro shops located on golf courses. In September, 1981, Spalding brought into the market a newly designed line of clubs under its Elite name with an innovative design and exceptional appearance, plus a new offset system and larger blade size that promote player confidence.

Both the XL4 and the new Elite clubs incorporate the most contemporary theories of design technology. Another innovative line of Spalding golf clubs reaching new sales highs is the TPM putter line, now available in 12 models, all designed by T.P. Mills, renowned and respected designer and consultant. The No. 1 selling club in the Spalding line is its Executive, the best selling top grade line of clubs among all industry offerings. Spalding's Top-Flite clubs comprise the most classical set in the line, and are favored by many touring golf pros.



New Elite clubs join the Spalding line. Top-Flite is favorite of the pros; the Executive is Spalding's top seller; the XL4's strength is in on-course pro shops.

Good weather and "graying" population contribute to record sales in golf products

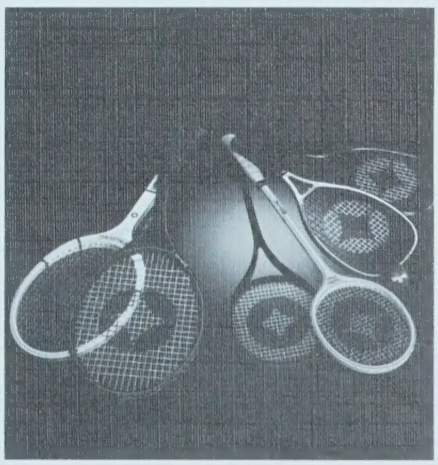
The record year in golf ball and club sales was stimulated, in part, by fair weather in the U.S. with 9% more rounds of golf being played than in 1980. Another factor that is leading to increased golf play is the movement of more people into the peak golfing ages of 43 to 47 years. The steadily advancing median age in the U.S., the so-called "graying of America," results in more persons in semiretired or retired status, thus with more time for golf. With the prime golfing population growing older, the golf equipment industry, through its National Golf Foundation, is taking steps to attract more people into the game. Under the leadership of Spalding Senior Vice President James M. Long, now in his second year as NGF president, the foundation is spearheading a multipart program designed to substantially expand the promotion of golf and stimulate increased participation.

In other countries where golf is a popular leisure time pursuit, strong growth patterns were maintained by the Top-Flite and Top-Flite XL balls and Spalding golf clubs. In Japan, the world's largest golf market after the U.S., Spalding balls and clubs attained another record sales year. The Top-Flite and Top-Flite XL balls, boosted by introduction of the British-size 1.62" diameter model, increased Spalding's share of the quality imported ball market. A new line of Spalding golf clubs, designed specifically with lengths and weights preferred by Japanese golfers, was successfully introduced in the quality imported club segment, increasing Spalding's share and industry leadership position.

In Australia, sales of golf products reached record levels for the second consecutive year. The Top-Flite XL golf ball, which was placed in production in Australia in 1980, had a highly successful year, and its sales are now nearing those of the Spalding Hot Dot, the top selling golf ball in southeastern Asia.

In the United Kingdom, Top-Flite and Top-Flite XL balls, in both the 1.62" British and 1.68" U.S. diameters, increased market share during the year and earned record sales. Those gains came with more aggressive distribution and advertising on British television.

Sales of golf products continued to increase in Sweden, where Spalding golf balls and clubs now hold a dominant market share; and in West Germany, where gains resulted from improved distribution.



At left are popular tennis rackets. At right are squash (center) and racquetball models.

Leather, rubber basketballs lead team sports product sales; J5V football is in seven bowl games

Basketballs, both leather and rubber, continued to lead the sales growth among Spalding's team sports products during 1981. The leather Top Flite 100 basketball continues as the No. 1 ball among NCAA colleges and is the official ball for nationally televised NCAA championship games. The Top Flite 100 also continues as the official ball for the Basketball Hall of Fame. While the Top Flite 100 is the leading leather basketball among major colleges in the nation, Spalding also has the No. 1 share of the quality rubber basketball market with balls autographed by "Doctor J," Larry Bird, and "Magic" Johnson.

Spalding is broadening this burgeoning basketball market with recent introductions of a line of accessory items, including basketball nets, ball needles, and air pumps.

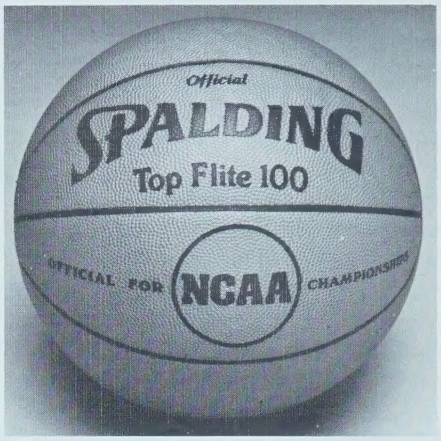
Spalding's J5V leather football is also widely used by major U.S. colleges and was the game ball in seven year end bowl games, the Rose, Orange, Sugar, Peach, Sun, Garden State, and Hall of Fame Bowls. George Rogers of the New Orleans Saints, a new Spalding consultant, was named NFL "Rookie of the Year", and this recognition is expected to boost sales of Spalding footballs bearing his endorsement.

Spalding's soccer ball is the official logo ball for teams in the North American Soccer League. Spalding offers special ball models for each of the 12 U.S. teams and four Canadian teams in the league, with the individual team name and the league logo. Sales of these team balls and models autographed by Pelé and Chinaglia continue to advance with the popularity of the game.

In court sports, U.S. tennis market stabilizes: sales of popularly priced rackets increase

In court sports, the major development of the year was a turn upward in popularity of tennis in the U.S. The steep declines in play in recent years were halted, and the tennis market began to stabilize. With this basic stimulus, Spalding attained significant increases in sales and profitability of its popularly priced tennis rackets. Spalding also made strides with the introduction of several new models with mid-size bows in metal, wood, and graphite composition materials. Tracy Austin, Spalding tennis consultant, was named "Female Athlete of the Year" by the Associated Press.

To compensate for the decline in racquetball popularity, Spalding developed and marketed a new line of quality, state-of-the-art racquets with extruded aluminum and graphite composition frames that are appealing

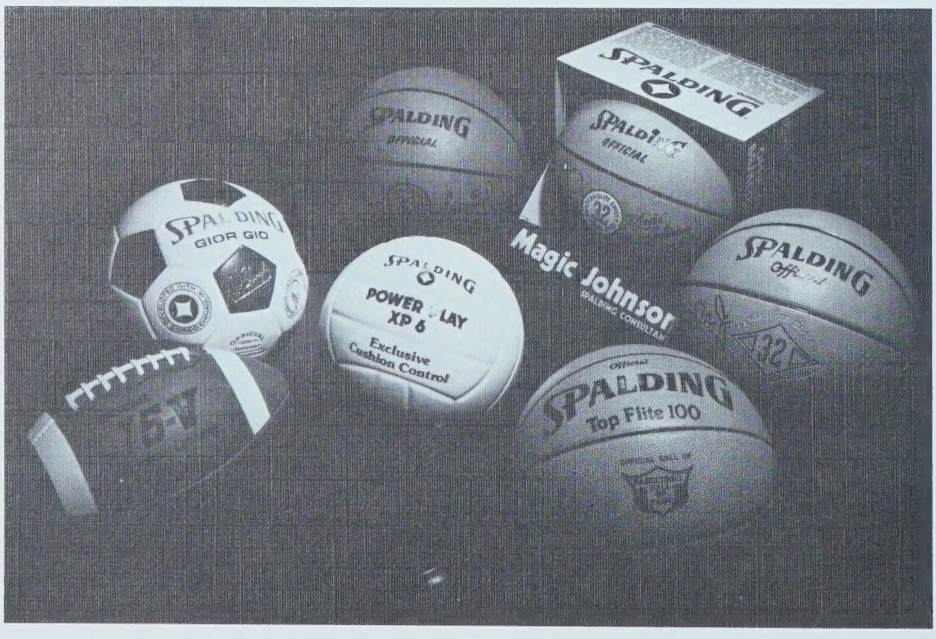


This is the official ball for NCAA tournaments and Hall of Fame games.

to dedicated players willing to pay higher prices for quality equipment. The year also brought the first successful full season for a new line of squash racquets developed with and endorsed by the World Professional Squash Association. These racquets will expand Spalding's share in the small but growing squash market.

Licensing activity continues to expand; Japan remains leading market for licensed products

Spalding continues to expand its product offerings worldwide by licensing the Spalding trademark to firms that are expert in their fields. The year 1981 was one of steady growth among U.S. licensees. Sales of the line of active sportswear licensed to the Warnaco Knitwear division of Warnaco Corporation grew with steady increases in the distribution base. Spalding's shoe licensee, San Shoe Corporation, reassigned the distribution of athletic shoes to the Volvo Recreational Products Division of Volvo, the Swedish automaker, to attain improved coverage of the retail trade. Spalding athletic socks continued to do well through the licensee, Neuville Mobil-Sox, Inc. Abroad, Japan continues to be a leading market for Spalding licensed products. There, the Spalding name means high fashion and quality for a wide variety of products, including sports and casual apparel, fashion accessories, household goods, family games and men's personal care products.



Spalding's principal inflated balls. The football, XP6 volleyball and Top Flite 100 basketball are leather. Soccer ball is synthetic leather. The other three are rubber.

Evenflo Worldwide achieves fourth consecutive year of record sales and earnings

With increased manufacturing capacity and improving productivity, and again aided by the continuing increase in U.S. births, Evenflo Worldwide attained its fourth consecutive year of record sales and earnings in 1981.

Evenflo again maintained its position as the leader in world distribution of infant feeding products.

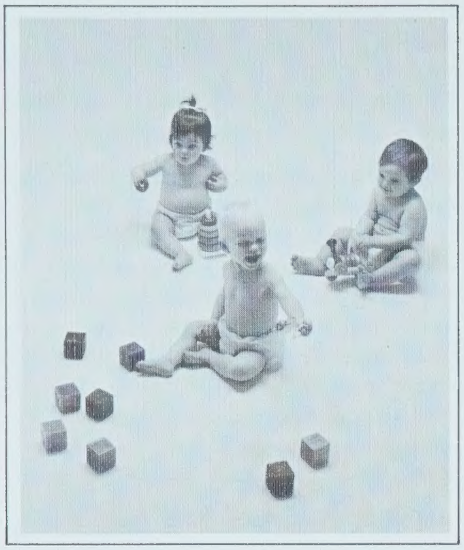
Evenflo U.S. performed above expectations for the year. Significant progress resulted from further expansion of distribution and improved market penetration for disposable nursers and breast feeding products, the two most rapidly growing lines. Evenflo was first on the market with a full line of breast feeding products four years ago and has continued to hold the leading market position. Incidence of breast feeding has increased rapidly in recent years. Today 65% of all new mothers in the U.S. start out breast feeding their babies, and 60% of those are able to continue through the third month or longer. It is the needs of these mothers that Evenflo is supplying with its breast feeding products.

Confidence of new mothers in Evenflo products began to build with the inception of Evenflo's standard line of bottles and nipples 53 years ago. Through the generations of families since, these basic products have maintained the dominant position in the market. Sales of standard bottles and nipples were again above expectations for 1981, as this historic growth pattern continued.

Evenflo's standard glass and plastic nursers hold dominant market position.

In conformance with federal regulations, Technician Sharon Schell injects bacterial culture medium into disposable bottle to test for sterility.

John Kostantaras
President
Evenflo Worldwide



New line of baby care products moves into national distribution behind favorable market testing

During 1981 Evenflo completed another step in its strategic plan for new products. A comprehensive market testing program on a new line of related baby care products was completed with favorable results, and that line began moving into national distribution early this year. These products include broad assortments of baby playthings, oral development products and other accessories such as baby pants, bibs and safety pins. Items are individually carded and poly bagged for easy display on color-coded retail merchandising units along with Evenflo nursing products.

Evenflo further improved its manufacturing facilities during 1981. Production capacity for disposable nursers and injection molded products was increased. The continuing program of upgrading manufacturing processes with current technology and more efficient machinery resulted in improved productivity and reduced costs.

New Baby Care Centers are moving into national distribution after favorable results from a market testing program.

Wherever Evenflo products are sold, they speak the language of mothers.

With more women in childbearing years, U.S. births continue to increase

An important springboard for all of this progress has been the continuing increase in births in the U.S. during the past six years. Births in the U.S. reached approximately 3,650,000 in 1981. Demographers attribute the increases in U.S. births principally to greater number of women in the prime childbearing years of 18 through 34.

Evenflo reaching to developing nations abroad to capitalize on opportunities for growth

Evenflo continues to look abroad for attractive market opportunities. Many other nations, particularly the developing third-world countries, have birth rates and numbers of births that are higher than in the U.S. As these nations develop, new mothers in those countries are increasingly seeking safer, more convenient and better products for their babies. And this fact is Evenflo's opportunity.

Mexico, with a population base about one-fourth that of the U.S., has about the same number of births annually as the U.S. In that market, Evenflo Mexico performed at record levels for the year, maintaining a dominant share of the market despite heavy competitive pressures. Earnings were depressed by inflationary pressures on the local currency and the strong U.S. dollar.

Evenflo maintained its position as a market leader in most of Latin America; however, business activity in Argentina and El Salvador declined.

Evenflo Philippines had a record year despite a soft national economy. During the year, distribution was improved and market penetration was deepened in the Philippines and in principal markets on the southeastern Asian continent, including Thailand, Hong Kong and Singapore. Market tests for breast feeding products indicated a positive market trend, so that line is now being moved into broader distribution in the southeastern Asia market area.

Evenflo products continued to make good progress in Egypt and Saudi Arabia during the year. Studies are now under way in several European countries to determine the viability of the brand and entry strategies for further expansion.

Evenflo's breast feeding products are also moving into national distribution in Australia following favorable results in marketing tests. The year was one of record results in Australia, and Evenflo's dominant share of the infant feeding market was maintained by its licensee and distributor there.

In Canada, the breast feeding product line led the Evenflo organization there to another year of positive growth despite a difficult economy.

Disposable bottles and nursers comprise one of Evenflo's most rapidly growing lines.

Questor Juvenile Furniture again reaches new, higher sales and earnings in 1981

Growing from its firm base as an industry leader and with the continuing stimulus of an increasing number of births in the U.S., Questor Juvenile Furniture Company again reached higher sales and earnings levels in 1981.

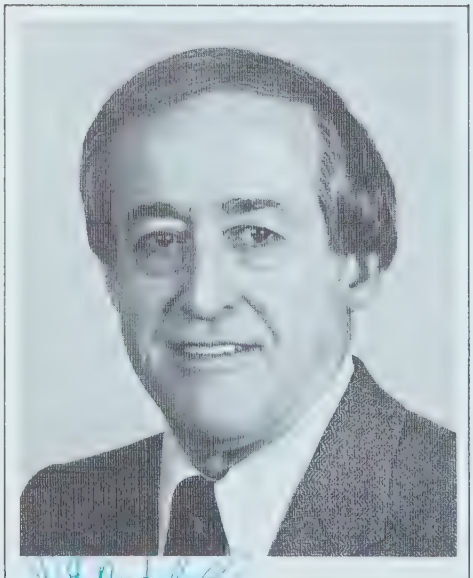
This continuing progress, now in its sixth year, was nourished by strong first-year sales of several new products that opened new areas of demand and met new wants and needs of parents who are bringing children into a changing social environment.

Basic to Juvenile Furniture's growth are the innovative products that have been developed and moved into the marketplace during the past five years and merchandising directed at somewhat older, affluent parents who often have two incomes to establish complete nurseries for their first-born babies.

Dyn-O-Mite is largest selling baby carrier in the U.S.

Much of Juvenile Furniture's growth in 1981 was generated by three new products in their first full year of sales: The Maxi-Taxi stroller, The One-Step car seat, and Lullabye's new "Nostalgia" ensemble of nursery

Department Store Buyer Carol Johnson (seated, left) examines features of the Maxi-Taxi in Juvenile Furniture's Piqua (Ohio) showroom.



D. F. Mitchell
President
Questor Juvenile Furniture

With The One-Step car seat, harness and crash shield are secured in place with a one-snap fastener.

furniture. Outstanding among these was the Maxi-Taxi stroller, which marked Juvenile Furniture's entry into the stroller market and became the best-selling, first-year product in the juvenile industry. A unique feature is one hand set up and fold. Capitalizing on this success, Juvenile Furniture introduced for 1982 two additional models of Maxi-Taxi strollers; an economy version and a deluxe model.

One-Step car seat is a first year success; Dyn-O-Mite seat continues as market leader

The One-Step car seat was another highly successful, first-year product. It combines the comfort and security of a harness and crash shield for the baby with one-snap fastener convenience for the parents. The One-Step car seat represents an extension of Juvenile Furniture's very successful line of car seats that have been developed, dynamically safety tested, and introduced over the past five years. The largest selling of these is the Dyn-O-Mite seat, brought into the market five years ago as a car seat, but its lightweight portability, convenience, and security features have led to its utilization by parents to transport their babies everywhere. The Dyn-O-Mite is now the largest selling product of its type in the nation. This success led to the development of other special-purpose baby carriers, each with its distinctive function and appeal.

Booster seat is designed for travel.

The natural woods of the Lullabye and Baby Line nursery furniture lines have an appeal that continues to hold an important share of sales in that market for Juvenile Furniture. Lullabye's new "Nostalgia" grouping, with its turn-of-the-century embossed panels and intricate brass hardware fit readily into complete nursery plans for many new parents and sold well during 1981. Building from that success, Lullabye has introduced two new ensembles for 1982, "Antiquity" and "Victorian." Both have earned good initial interest from retail segments of the market.

"Nostalgia" suite is popular.

Two other product categories continued to experience good growth during 1981. High chairs reached new sales levels, led by the "Sidewinder" high chair with its convenient, one hand, side lifting and self-storing tray. Play yards also continued as a growth line.

First Maxi-Taxi (center) was best selling first year product. Economy (left) and deluxe models (right) have been introduced.

Parents of first babies are major buyers of juvenile furniture; U.S. births continue growth

Juvenile furniture now estimates that 70% of its products are purchased by the parents of first babies, with grandparents also becoming an important market factor. First-born babies comprise 42% of all births, compared with 38% a decade ago. That fact, combined with the continuing upward climb in the number of U.S. births, creates a positive market situation for our juvenile product operations.

Energy conservation products again lead Leslie-Locke to sales growth for the year

Products that are designed to enable homeowners to reduce energy costs while maintaining traditional standards of comfort again led Leslie-Locke to sales growth in 1981.

A broad line of ventilation products, including decorator ceiling fans, power and static roof ventilators and wind turbines experienced strong upward movement in the market and record sales. This was accomplished despite generally mild weather during the latter part of the summer, price discounting among marginal brands of ceiling fans and the lagging national economy. A new ventilation product, aluminum ridge vent, was introduced into the market during the spring under the trade name "Ridge Runner." First year sales exceeded expectations, and it was acclaimed the most innovative new product in the static ventilation industry in two decades.

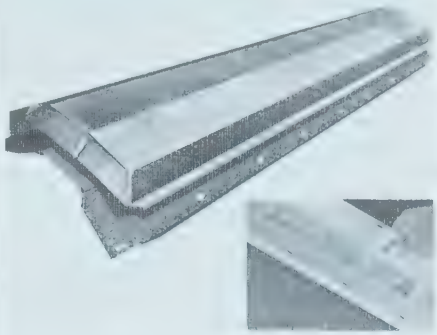
Energy saving ventilation products produced strong sales.

Another home environmental product line that stimulated favorable consumer acceptance in its first full year of sales

Artistry at 1800°F.—Using a welding torch as a sculpturing tool, this workman fashions a flower cluster in iron for a mailbox post.

Thomas F. Schretter
President
Leslie-Locke

Ceiling fan sales were good despite some competitive price discounting.



Sales of aluminum ridge vent exceeded expections in first year.

was acrylic basement window and window well covers. These products were promoted for their ability to protect basement windows and window wells from debris and precipitation and reduce more than 80% of the heat loss through aluminum frame basement windows. Leslie-Locke emphasizes energy savings in its merchandising along with the functional appeal of protection.

Home security products also made important contributions to Leslie-Locke's sales results for the year. In growing demand was the line of ornamental iron window guards, designed for both distinctive appearance and security, and marketed under the trade name, "Wind-O-Guard". The window guards are part of a broad line of ornamental iron products manufactured by Leslie-Locke, including iron railings and columns and custom iron fencing. Leslie-Locke is the leading producer of these products in U.S.

Marketing products to do-it-yourself homeowners continues to succeed

Continuing thrust of Leslie-Locke's marketing efforts is toward individual homeowners who undertake their own home improvement projects. Our products are designed, packaged and merchandised with educational materials to enable the homeowner to obtain professional results with common tools and without special skills. Ceiling grid is a good example of a product, generally installed by professionals, that has been redesigned, packaged in room-sized lots, and merchandised with step-by-step instructions, so increasing numbers of homeowners each year elect to install it themselves with substantial savings and satisfactory results.

The success of this market direction over recent years has firmly positioned Leslie-Locke as a leading supplier to wholesale distributors and major regional and national retailers of home improvement products. It has also helped to insulate the company from depressed conditions in the nation's home building industry.

R & D projects on energy, security products have high priority

Product research and development, particularly in the fields of energy conservation and home security continue with important priorities. Several new products in these areas are in the final stages of development and others are scheduled for market introduction during the next two years.

At this time, Leslie-Locke is in the process of consolidating its general offices and several manufacturing operations in Atlanta, Georgia, providing new efficiencies and strategic location in the rapidly-growing southern region.

Leslie-Locke is the nation's leading producer of ornamental iron fencing, railings, columns, window guards.

FINANCIAL SECTION

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CONSOLIDATED EARNINGS

Questor Corporation and Subsidiaries
Statements of Consolidated Earnings
Three Years Ended December 31, 1981

	1981	1980	1979
	(Thousands of dollars, except per share figures)		
Net Sales	**$ 273,675**	272,145	266,691
Costs and Expenses			
Cost of sales	**182,913**	186,885	186,811
Selling, general and administrative expenses	**69,055**	68,970	64,329
Interest expense	**4,723**	9,280	8,321
Interest income	**(699)**	(584)	(1,204)
Net currency translation and transaction loss	**1,071**	176	124
Total Costs and Expenses	**257,063**	264,727	258,381
Earnings from Continuing Operations before Nonrecurring Expense and Income Taxes	**16,612**	7,418	8,310
Nonrecurring expense	**9,600**	9,300	415
Earnings (loss) from continuing operations before income taxes	**7,012**	(1,882)	7,895
Income taxes (benefit)	**5,800**	(400)	3,400
Earnings (Loss) from Continuing Operations	**1,212**	(1,482)	4,495
Discontinued Automotive Segment			
Earnings (loss) from operations, less income taxes (benefit) of $2,300 and $(8,400) and $6,400	**3,342**	(11,106)	4,218
Loss on disposal, less income tax benefit of $6,800	**(24,919)**	—	—
Earnings (Loss) from Discontinued Automotive Segment	**(21,577)**	(11,106)	4,218
Net Earnings (Loss)	**$ (20,365)**	(12,588)	8,713
Earnings (Loss) Per Common Share			
Continuing operations	**$ .10**	.17	.44
Discontinued Automotive segment	**(2.20)**	(1.15)	.44
Earnings (Loss) per Common Share	**$ (2.10)**	(1.32)	.88

See Accounting Policies and Financial Review on pages 20 to 29.

CONSOLIDATED BALANCE SHEETS

Questor Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 1981 and 1980

ASSETS	1981	1980
	(Thousands of dollars)	
Current Assets		
Cash and cash equivalents	**$ 36,327**	9,724
Amounts due from sales of real estate	**7,500**	—
Receivables, less allowance of $2,145 and $6,232	**60,107**	106,463
Refundable Federal income taxes	**9,265**	3,798
Inventories	**54,469**	96,549
Deferred income tax benefit	**7,886**	12,485
Prepaids and other assets	**830**	1,839
Net assets of discontinued Automotive segment	**3,835**	—
Total Current Assets	**180,219**	230,858
Property, Plant and Equipment		
Land	**974**	2,636
Buildings and building improvements	**17,113**	47,591
Machinery and equipment	**35,145**	81,148
	53,232	131,375
Accumulated depreciation	**(19,512)**	(57,331)
Net Property, Plant and Equipment	**33,720**	74,044
Other Assets	**5,400**	7,127
	$ 219,339	312,029

See Accounting Policies and Financial Review on pages 20 to 29.

LIABILITIES AND SHAREHOLDERS' EQUITY	1981	1980
	(Thousands of dollars)	
Current Liabilities		
Bank loans and current maturities of long-term debt	$ 8,313	16,137
Accounts payable	16,157	37,240
Accrued expenses	31,887	33,866
Accrual for disposal and realignment of facilities	13,251	21,981
Income taxes	2,454	2,910
Total Current Liabilities	72,062	112,134
Deferred Income Taxes	2,819	4,163
Long-Term Debt	32,895	63,748
Shareholders' Equity		
Prior preferred stock, without par value		
Authorized: 1,000,000 shares		
Issued: 103,052 shares and 103,063 shares of Series A $2 convertible ($35 stated value)	3,607	3,607
Common stock, $1 par value		
Authorized: 14,000,000 shares		
Issued: 9,925,830 shares and 9,887,274 shares	9,926	9,887
Additional paid-in capital	14,231	14,120
Retained earnings	86,108	106,679
Common stock held in treasury, at cost—163,874 shares	(2,309)	(2,309)
Total Shareholders' Equity	111,563	131,984
	$ 219,339	312,029

CONSOLIDATED SHAREHOLDERS' EQUITY

Questor Corporation and Subsidiaries
Statements of Consolidated Shareholders' Equity
Three Years Ended December 31, 1981

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock
			(Thousands of dollars)		
Shareholders' equity December 31, 1978	$ 3,607	9,742	13,349	114,327	(2,309)
Net earnings for the year	—	—	—	8,713	—
Cash dividends declared					
Preferred stock—$2 per share	—	—	—	(206)	—
Common stock—$.20 per share	—	—	—	(1,921)	—
Issuance of common stock under stock option and award plans, net	—	110	605	—	—
Shareholders' equity December 31, 1979	3,607	9,852	13,954	120,913	(2,309)
Net loss for the year	—	—	—	(12,588)	—
Cash dividends declared					
Preferred stock—$2 per share	—	—	—	(206)	—
Common stock—$.15 per share	—	—	—	(1,440)	—
Issuance of common stock under stock option and award plans, net	—	35	166	—	—
Shareholders' equity December 31, 1980	3,607	9,887	14,120	106,679	(2,309)
Net loss for the year	—	—	—	**(20,365)**	—
Preferred stock cash dividends declared—$2 per share	—	—	—	**(206)**	—
Issuance of common stock under stock option and award plans, net	—	**39**	**111**	—	—
Shareholders' equity December 31, 1981	**$ 3,607**	**9,926**	**14,231**	**86,108**	**(2,309)**

See Accounting Policies and Financial Review on pages 20 to 29.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Questor Corporation and Subsidiaries
Statements of Consolidated Changes in Financial Position
Three Years Ended December 31, 1981

	1981	1980	1979
		(Thousands of dollars)	
Sources (Uses) of Funds from Operations			
Continuing Operations			
Earnings (loss)	$ 1,212	(1,482)	4,495
Non-cash items			
Depreciation and amortization	4,409	6,214	5,333
Nonrecurring expense	9,600	9,300	415
Deferred income taxes (benefit)	(1,700)	(4,541)	636
Funds Provided from Continuing Operations	13,521	9,491	10,879
Discontinued Automotive Segment			
Earnings (loss)	(21,577)	11,106	4,218
Non-cash items			
Depreciation and amortization	4,715	5,522	4,686
Loss on disposal of discontinued Automotive segment	24,919	—	—
Nonrecurring expense (income)	—	17,300	(4,726)
Deferred income taxes (benefit)	—	5,099	3,638
Funds Provided from Discontinued Automotive Segment	8,057	6,617	7,816
Funds Provided from Operations	21,578	16,108	18,695
Other Sources (Uses) of Funds			
Proceeds from sale of domestic Automotive facilities and operations	47,600		
Amounts due from sales of real estate	(7,500)		
Receivables	4,309	2,796	15,435
Refundable Federal income taxes	(5,467)	(3,798)	
Inventories	(4,979)	9,887	1,513
Property, plant and equipment			
Disposals, net	947	7,206	2,057
Capital expenditures	(5,681)	(18,081)	(17,032)
Bank loans and current maturities of long-term debt	634	(6,715)	(14,379)
Accounts payable and accrued expenses	5,502	(1,837)	7,865
Accrual for disposal and realignment of facilities	(1,069)	(4,619)	(644)
Long-term debt			
Proceeds	—	11,453	5,554
Repayments	(29,280)	(10,714)	(18,219)
Other	9	816	1,282
Funds Provided (Used) from Other Sources	5,025	(13,606)	(16,568)
Cash and Cash Equivalents Net Increase	26,603	2,502	2,127
Cash and Cash Equivalents beginning of year	9,724	7,222	5,095
Cash and Cash Equivalents end of year	$ 36,327	9,724	7,222

See Accounting Policies and Financial Review on pages 20 to 29.

ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial statements of non-U.S. subsidiaries, except for Canada, relate to years ended November 30 and have been translated into U.S. dollars according to the Financial Accounting Standards Board's Statement Number 8.

Inventories
Inventories are valued at the lower of cost or market (net realizable value). Cost for all domestic inventories has been determined by use of the last-in, first-out method in 1981 and 1980. The first-in, first-out method was previously used for domestic inventories and continues to be used for all non-U.S. inventories.

Property, Plant and Equipment
These assets are stated at cost and are depreciated principally using the straight-line method over estimated useful lives which range from two to forty years. Certain assets are depreciated for income tax purposes using accelerated methods. Assets that become fully depreciated are removed from the asset and related accumulated depreciation accounts.

Income Taxes
Provisions for income taxes include deferred taxes for all major timing differences. No provision is made for Federal income taxes on unremitted earnings of subsidiaries since no significant amounts are expected to be remitted to the parent company in the foreseeable future. Investment tax credits are recognized utilizing the flow-through method.

Shared Growth Plan, Stock Options and Restricted Stock Awards
The Company has a shared growth plan in which units are granted to certain executive officers. For valuation purposes only, each unit is equivalent to one share of the Company's common stock. The units are granted at an assigned value and become exercisable over three years. The holder has an additional seven years in which to exercise the grant. Upon exercise the holder receives the cash equivalent of the excess of the then market value of the Company's common stock over the assigned value of each unit. As changes between the market value and the assigned value of the units occur, compensation expense is charged or credited.

In accounting for the exercise of stock options, common stock and additional paid-in capital are credited.

Restricted stock has been awarded to certain officers and key employees on the basis of current performance. Awards are charged directly to earnings based on the market value at the date of the awards. The related credits are to common stock and additional paid-in capital.

Pension Plans
The Company's domestic operations have noncontributory, defined-benefit pension plans covering substantially all employees. Most non-U.S. subsidiaries have separate plans which are integrated with the benefits required by the laws of the various countries. Accrued pension costs are funded, and pension expense includes the amortization of prior service costs on the basis of amortization periods ranging primarily from thirty to forty years.

Earnings Per Common Share
Earnings per common share are based on net earnings, after considering preferred stock dividend requirements, divided by the weighted average number of shares outstanding and, when applicable, assumes conversion of outstanding preferred stock and issuance of common shares contingently issuable under stock option plans.

FINANCIAL REVIEW

Discontinued Automotive Segment

Effective October 1, 1981, the Company developed a plan to dispose of its Automotive segment. As part of this plan certain domestic Automotive facilities and operations were sold for $47,600,000 resulting in an after tax loss of $8,919,000. Additionally, a provision of $16,000,000, without any tax benefit, was established for the reduction of the remaining Automotive net assets to estimated net realizable value and for estimated operating losses to be incurred prior to final disposition in 1982.

The statements of consolidated earnings present the Automotive operations as a discontinued segment. Automotive net sales aggregated $157,411,000 for the nine months ended September 30, 1981 and $188,429,000 and $198,791,000 for the years ended December 31, 1980 and 1979. During the fourth quarter of 1981, operating losses incurred by the remaining Automotive operations were charged against the accrual for loss on disposal.

The December 31, 1981 consolidated balance sheet reflects the remaining assets of the discontinued segment net of the accrual for loss on disposal. The components of the net assets of the discontinued segment at December 31, 1981 and the net assets of the segment at December 31, 1980, which were included in the consolidated balance sheet at that date and not restated, are as follows:

	1981	1980
	(Thousands of dollars)	
Current assets	$ 26,652	92,536
Net property, plant and equipment	14,882	40,689
Other assets	553	2,940
Total assets	42,087	136,165
Current liabilities	(22,733)	(57,071)
Other liabilities	(674)	(1,573)
Accrual for loss on disposal	(14,845)	—
Net assets	$ 3,835	77,521

Nonrecurring Expense

Nonrecurring expense consists of the following:

	1981	1980	1979
	Thousands of dollars		
Provision for realignment of facilities	$ 7,700	—	—
Provisions for disposal of facilities	400	9,300	—
Provisions for write-down of investments	1,030	—	—
Other	470	—	415
Nonrecurring expense	$ 9,600	9,300	415

In the fourth quarter of 1981, the Company adopted a plan to realign certain Recreation, Home Environmental and Corporate operations. This plan includes the rearrangement, disposal or relocation of various facilities and is expected to be substantially completed in 1982.

The 1980 provison of $9,300,000 represented the estimated costs and losses from the December 30, 1980 disposal of the Company's ski operations, and the anticipated closing of another small unprofitable manufacturing operation. In 1981 this provision was increased by $400,000.

During 1981 the Company recorded a provision of $1,030,000 to write down its investment in two nonconsolidated subsidiaries to net realizable value.

FINANCIAL REVIEW (Continued)

International Operations

The following is a summary of certain financial information relating to the Company's consolidated operations outside the United States:

	1981	1980	1979
	(Thousands of dollars)		
OPERATING RESULTS			
Net sales	$ 62,052	77,607	74,488
Net earnings (loss)	$ 675	(6,157)	1,841
FINANCIAL POSITION			
Current assets	$ 39,094	55,641	
Net property, plant and equipment	2,555	17,815	
Other assets	150	405	
Total assets	$ 41,799	73,861	
Current liabilities	$ 13,040	35,567	
Long-term debt	68	1,655	
Shareholder's equity	28,691	36,639	
Total liabilities and shareholder's equity	$ 41,799	73,861	

Effective October 1, 1981, the Company developed a plan to dispose of its Automotive segment. Net sales and net earnings (loss), presented above, do not include the discontinued Automotive segment. Current assets at December 31, 1981 includes the remaining Automotive net assets at estimated net realizable value.

As of December 30, 1980, the Company disposed of its ski operations. Included above for 1980 and 1979 are net sales of $23,047,000 and $30,682,000 and net losses of $8,936,000 and $918,000 relating to the ski operations. 1981 net earnings were lower than 1980, adjusted for ski operations, as a result of higher income taxes and currency translation and transaction losses.

Income Taxes

The provisions for income taxes are summarized as follows:

	1981	1980	1979
	(Thousands of dollars)		
Current (benefit)			
Federal	$ (6,400)	(2,318)	4,092
Other nations	4,400	3,158	1,434
Total current (benefit)	(2,000)	840	5,526
Deferred (benefit)			
Federal	4,000	(9,486)	4,320
Other nations	(700)	(154)	(46)
Total deferred (benefit)	3,300	(9,640)	4,274
Income taxes (benefit)	$ 1,300	(8,800)	9,800
Continuing operations	$ 5,800	(400)	3,400
Discontinued Automotive segment	(4,500)	(8,400)	6,400
Income taxes (benefit)	$ 1,300	(8,800)	9,800

Actual income taxes from continuing operations differed from expected amounts (computed by applying the Federal statutory rate of 46% to earnings or loss before income taxes) as follows:

	1981	1980	1979
	(Thousands of dollars)		
Taxes (benefit) at Federal statutory rate	$ 3,200	(900)	3,600
Rate differential relating to profitable non-U.S. subsidiaries, net of U.S. benefit from foreign taxes	1,300	700	(500)
Investment tax credits, net of recapture	(700)	(200)	(300)
Write-downs which provided no tax benefit	500	—	—
Operating losses of non-U.S. subsidiaries which provided no tax benefit	300	4,200	500
Realized loss on sale of investment in a subsidiary, which previously provided no tax benefit	—	(4,000)	—
Other	1,200	(200)	100
Income taxes (benefit) from continuing operations	$ 5,800	(400)	3,400

The effective income tax (benefit) rates for the discontinued Automotive segment were (17)% in 1981, (43)% in 1980 and 60% in 1979. These rates differed from the 46% Federal statutory rate primarily due to the effect of a $16,000,000 write-down, which provided no tax benefit in 1981; and a rate differential relating to the reversal in 1979 of an accrual for anticipated loss on the close-down of a non-U.S. subsidiary. There were no significant reconciling items in 1980.

Certain timing differences exist which cause current income taxes actually payable to differ from the amounts provided as follows:

	1981	1980	1979
	(Thousands of dollars)		
Provisions for disposal and realignment of facilities	**$ 7,000**	(12,236)	3,580
Installment receivables	**(2,300)**	2,300	—
Depreciation recapture	**(1,900)**	—	—
Other	**500**	296	694
Total deferred income taxes (benefit)	**$ 3,300**	(9,640)	4,274

The Company's Federal income tax returns through December 31, 1978 have been examined by the Internal Revenue Service and settlement has been reached through 1976. Management believes that adequate provision has been made for any assessments which may result from examinations of the returns through 1981.

Refundable Federal income taxes result from the carryback of the 1981 and 1980 losses.

Cash and Cash Equivalents

At December 31, 1981, the Company had cash and cash equivalents of $36,327,000 which included interest-bearing deposits of $29,500,000, commercial paper of $1,990,000 and cash in banks of $4,837,000. The December 31, 1980 balance of $9,724,000 is comprised solely of cash in banks.

Amounts Due from Sales of Real Estate

At December 31, 1981, the Company had amounts due from sales of real estate aggregating $7,500,000, received in the first week of January, 1982.

Inventories

Commencing in 1980 the Company's domestic inventories are valued on the last-in, first-out (LIFO) method, because management believes the LIFO method more closely matches current costs and current revenues in periods where prices of goods and services are increasing. If the FIFO method had been used for valuing domestic inventories, inventories would have been $3,589,000 and $1,827,000 higher at December 31, 1981 and 1980. The domestic inventories on LIFO approximated 68% of the December 31, 1981 consolidated inventories and 74% of the December 31, 1980 consolidated inventories.

Debt

Debt at December 31 consists of obligations of domestic and non-U.S. companies summarized as follows:

	1981	1980
	(Thousands of dollars)	
Bank loans	**$ 2,779**	7,529
Insurance companies	**25,400**	27,800
Term loan agreements	**12,000**	25,500
Revolving credit agreement	**—**	10,000
Belgian franc credit facility	**859**	2,299
Other	**170**	5,056
Capital lease obligations	**—**	1,701
Total debt	**41,208**	79,885
Bank loans and current maturities of long-term debt	**(8,313)**	(16,137)
Long-term debt	**$ 32,895**	63,748

The aggregate maturities of long-term debt for the years 1982 through 1986 are:

	1982	1983	1984	1985	1986
	(Thousands of dollars)				
Amounts	$ 7,534	5,436	6,687	4,937	2,411

The Company's non-U.S. consolidated subsidiaries had short-term bank borrowings of $2,779,000 and $7,529,000 at December 31, 1981 and 1980. At December 31, 1981, the Company maintained $41,000,000 in domestic short-term lines of credit, none of which were utilized ($43,354,000 available with none utilized in 1980). In January, 1982, the Company terminated these lines of credit.

The amount payable to insurance companies is under a loan agreement maturing June 1, 1992 which requires annual principal payments of $2,400,000 with interest at 8⅛%.

At December 31, 1981, the Company had a 13%, $12,000,000 term loan with a bank. The loan matures on May 1, 1985 with installments increasing annually from $2,250,000 in 1982 to $4,250,000 in 1984. At December 31, 1980, two additional term loans with interest at 9% and due in 1984 and 1985 were outstanding. These loans were repaid during 1981.

At December 31, 1980, the Company maintained a $30,000,000 revolving credit agreement which had a compensating balance requirement and carried a maximum interest rate of prime prior to repayment in 1981.

The Company maintains a credit agreement with two Belgian banks. The borrowings are repayable in Belgian francs on December 31, 1982 with interest at 7⅞%.

Other debt at December 31, 1980 consists primarily of $4,789,000 of Spanish bank loans carrying interest at rates of 10½% to 18½% payable in installments through 1982. At December 31, 1981, $2,147,000 was outstanding and has been classified with net assets of discontinued Automotive segment.

In 1981 all significant capital lease obligations were disposed of as part of the sale of domestic Automotive facilities and operations. At December 31, 1980, the Company had long-term capital lease obligations, net of interest, totaling $1,701,000 and related net property, plant and equipment of $2,728,000.

Restrictive provisions of long-term debt agreements require the Company and certain consolidated subsidiaries to maintain minimum working capital and net tangible assets and limit payment of common stock cash dividends and purchase of Company stock. At December 31, 1981, $10,000,000 of retained earnings was free of such dividend and stock repurchase restriction.

Capital Shares

The Board of Directors may establish one or more series of authorized prior preferred stock and fix the rates, preferences and terms of each series. All series of prior preferred stock rank senior to the Company's common stock as to all rights, powers and privileges.

The Series A $2 convertible prior preferred stock is entitled to cumulative cash dividends of $2 annually, is convertible into shares of common stock at the rate of 1.875 shares of common for each share of preferred and is redeemable at the option of the Company at $50 per share (an aggregate of $5,153,000) plus accrued dividends. Holders of the Series A $2 convertible prior preferred stock are entitled to one vote per share.

At December 31, 1981, an aggregate of 466,065 common shares (412,399 shares in 1980) were reserved for issuance upon conversion of the prior preferred shares, awards under the restricted stock award plans and exercise of stock options.

Shared Growth Plan, Stock Options and Restricted Stock Awards

The 1981 shared growth plan provides for grants of units to certain executive officers. At December 31, 1981, there were 370,000 units issued and outstanding, at an assigned value of $7 each.

The Company's 1972 and 1968 qualified stock option plans for certain officers and key employees provided that options may be granted at prices not less than market value at the date of grant or date of subsequent modification. As of January 25, 1982, both plans had expired with no additional options granted after December 31, 1981.

Data on stock options are summarized below:

	Shares	
	1981	1980
Options outstanding at beginning of year ($4.88 to $8.75 per share)	**83,612**	126,439
Options exercised ($5.37 to $6.25 per share)	**(68,018)**	(23,881)
Options expired or terminated ($4.88 to $8.75 per share)	**(15,594)**	(18,946)
Options outstanding and exercisable at end of year ($4.88 to $8.75 per share)	**—**	83,612

The Company's 1981 and 1968 restricted stock award plans provide a total of 300,000 common shares which may be awarded to employees of the Company and its subsidiaries to reward outstanding performance and build loyalty. Certificates covering awarded shares contain restrictions against the sale of the stock for specific periods, and the Company receives no deduction for income tax purposes until the restrictions terminate. At December 31, 1981, there were 95,792 awarded shares outstanding (111,920 shares in 1980) and 150,600 shares available for future awards (14,800 shares in 1980).

Pension Plans

Actuarial valuations of the Company's domestic noncontributory, defined-benefit pension plans have been determined as of January 1, 1981 and 1980, and are as follows for continuing operations:

	1981	1980
	(Thousands of dollars)	
Present value of accumulated plan benefits (8% rate of return)		
Vested	**$ 17,300**	16,200
Non-vested	**2,400**	2,000
Total benefits	**$ 19,700**	18,200
Plan net assets available for benefits	**$ 31,700**	24,800

Total pension expense for continuing operations was $2,207,000 in 1981, $2,141,000 in 1980 and $2,284,000 in 1979.

Leases

The Company and its subsidiaries lease certain manufacturing, warehousing and office facilities and equipment under various operating lease agreements, many having renewal options, expiring periodically through 1988. At December 31, 1981, the Company had no significant capital leases.

As of December 31, 1981, future minimum rental obligations under operating leases of continuing operations aggregate $2,774,000. Annual payments under operating leases which have an initial or remaining noncancelable lease term in excess of one year are $964,000, $780,000, $553,000, $213,000 and $141,000 for the years 1982 through 1986.

Rental expense under operating leases of continuing operations was $2,312,000 in 1981, $2,431,000 in 1980 and $2,917,000 in 1979.

Quarterly Results (Unaudited)

The Company's quarterly results for years ended December 31, 1981 and 1980 are summarized as follows:

QUARTERS	First	Second	Third	Fourth	Year
	(Thousands of dollars, except per share figures)				
1981					
Continuing operations					
Net sales	**$ 61,882**	**80,964**	**68,637**	**62,192**	**273,675**
Gross profit	**19,905**	**28,157**	**21,519**	**21,181**	**90,762**
Earnings (loss)	**1,300**	**3,312**	**726**	**(4,126)**	**1,212**
Earnings (loss) per common share	**.13**	**.33**	**.07**	**(.43)**	**.10**
Discontinued Automotive segment					
Earnings (loss)	**81**	**937**	**2,324**	**(24,919)**	**(21,577)**
Earnings (loss) per common share	**.01**	**.10**	**.23**	**(2.54)**	**(2.20)**
Consolidated operations					
Net earnings (loss)	**1,381**	**4,249**	**3,050**	**(29,045)**	**(20,365)**
Net earnings (loss) per common share	**$ .14**	**.43**	**.30**	**(2.97)**	**(2.10)**
1980					
Continuing operations					
Net sales	$ 59,261	66,776	68,829	77,279	272,145
Gross profit	16,811	20,602	22,226	25,621	85,260
Earnings (loss)	(1,136)	2,292	(2,400)	(238)	(1,482)
Earnings (loss) per common share	(.12)	.23	(.25)	(.03)	(.17)
Discontinued Automotive segment					
Loss	(2,198)	(457)	(1,700)	(6,751)	(11,106)
Loss per common share	(.23)	(.05)	(.18)	(.69)	(1.15)
Consolidated operations					
Earnings (loss)	(3,334)	1,835	(4,100)	(6,989)	(12,588)
Earnings (loss) per common share	$ (.35)	.18	(.43)	(.72)	(1.32)

Operating results for 1980 and the first three quarters of 1981 have been restated to reflect the plan, adopted effective October 1, 1981, to dispose of the Company's Automotive segment. The fourth quarter 1981 loss from the discontinued Automotive segment includes the loss on disposal of domestic Automotive facilities and operations and the estimated loss for the reduction of the remaining Automotive net assets to estimated net realizable value and for estimated operating losses to be incurred prior to final disposition. During the fourth quarter of 1980 the Company sold its ski operations.

In general, the improved 1981 results of continuing operations were due to cost reduction measures and the strong market position of the continuing operating units.

The fourth quarter 1981 loss from continuing operations reflects nonrecurring expense of $4,700,000, net of tax, primarily to realign Recreation, Home Environmental and Corporate operations, and to write down to net realizable value the Company's investment in two nonconsolidated subsidiaries. Income tax benefit in the fourth quarter of 1981 was approximately $2,300,000 less than expected because of an increase in the actual rate from that estimated in prior quarters and because certain nonrecurring expenses provided no tax benefit.

FINANCIAL REVIEW (Continued)

Segment Reporting

The following schedule presents information about the Company's continuing operations in different industry segments and geographic locations:

INDUSTRY SEGMENT	1981	1980	1979
		(Thousands of dollars)	
Net Sales			
Recreation	**$ 142,093**	160,499	164,224
Juvenile	**90,741**	77,232	69,971
Home Environmental	**40,841**	34,414	32,496
Total net sales	**$ 273,675**	272,145	266,691
Operating Profit			
Recreation	**$ 11,435**	6,826	9,053
Juvenile	**12,451**	9,625	7,479
Home Environmental	**2,440**	4,431	3,713
General Corporate expenses	**(4,991)**	(4,184)	(3,614)
Interest expense	**(4,723)**	(9,280)	(8,321)
Nonrecurring expense	**(9,600)**	(9,300)	(415)
Earnings (loss) from continuing operations before income taxes	**$ 7,012**	(1,882)	7,895
Identifiable Assets			
Recreation	**$ 90,183**	97,855	125,569
Juvenile	**37,657**	34,726	31,653
Home Environmental	**19,576**	18,535	16,331
General Corporate	**68,088**	24,748	18,036
Discontinued Automotive segment	**3,835**	136,165	119,161
Total assets	**$ 219,339**	312,029	310,750
Capital Expenditures			
Recreation	**$ 3,657**	6,183	5,979
Juvenile	**1,642**	1,255	2,014
Home Environmental	**309**	359	423
General Corporate	**73**	450	448
Total capital expenditures	**$ 5,681**	8,247	8,864
Depreciation and Amortization			
Recreation	**$ 2,424**	3,794	3,115
Juvenile	**1,232**	1,160	1,031
Home Environmental	**531**	555	589
General Corporate	**222**	705	598
Total depreciation and amortization	**$ 4,409**	6,214	5,333

GEOGRAPHIC LOCATION	1981	1980	1979
		(Thousands of dollars)	
Net Sales			
United States	**$ 211,623**	194,538	192,203
Other nations	**62,052**	77,607	74,488
Total net sales	**$ 273,675**	272,145	266,691
Operating Profit			
United States	**$ 19,575**	19,335	13,076
Other nations	**6,993**	1,728	6,964
Eliminations	**(242)**	(181)	205
General Corporate expenses	**(4,991)**	(4,184)	(3,614)
Interest expense	**(4,723)**	(9,280)	(8,321)
Nonrecurring expense	**(9,600)**	(9,300)	(415)
Earnings (loss) from continuing operations before income taxes	**$ 7,012**	(1,882)	7,895
Identifiable Assets			
United States	**$ 109,729**	117,261	113,328
Other nations	**37,964**	33,997	60,490
Eliminations	**(277)**	(142)	(265)
General Corporate	**68,088**	24,748	18,036
Discontinued Automotive segment	**3,835**	136,165	119,161
Total assets	**$ 219,339**	312,029	310,750

The Company is an international diversified manufacturer and distributor of consumer products. Recreation operations provide golf, court and team sport products. Juvenile operations supply goods for infant comfort and feeding. Home Environmental operations furnish products which include ornamental iron, ventilators, ceiling grids and fans. Effective October 1, 1981 the Company developed a plan to dispose of its Automotive segment. Accordingly, this segment has been eliminated from the segment information in 1981 and prior years have been restated for comparative purposes.

The Company's continuing operations and identifiable assets outside the United States are in Canada, Mexico, Australia and Japan, and no country accounts for more than 10% of consolidated totals. Similarly, no single customer accounts for more than 10% of consolidated net sales.

Intersegment sales prices are negotiated between each associated company. Sales between industry segments were insignificant for all years presented. Sales between geographic locations were $2,115,000 to the United States and $8,225,000 to other nations in 1981, $6,403,000 to the United States and $1,959,000 to other nations in 1980, and $5,379,000 to the United States and $2,638,000 to other nations in 1979.

Operating profit is net sales less operating expenses. In computing operating profit for the continuing segments, none of the following items were added or deducted: general Corporate expenses, interest expense, nonrecurring expense or income taxes. For the years presented, general Corporate expense and interest expense do not include amounts which relate to the discontinued Automotive segment.

FINANCIAL REVIEW (Continued)

Changing Prices (Unaudited)

The Financial Accounting Standards Board's Statement entitled "Financial Reporting and Changing Prices" requires the information shown in the following schedules. In the Company's opinion, this disclosure does not accurately reflect the results of operations. The adjusted net loss from continuing operations is due to restating selected historical costs without a similar increase in net sales, gain in value of net assets owned or adjustment to income taxes. Due to the continuous normal replacement and expansion of property, plant and equipment at higher cost, historical depreciation expense also increases. This expense increases inventory and cost of sales. The Company has used indexes and inflationary adjustments which should be representative of the respective assets; however, the Company disclaims responsibility for the accuracy, consistency, weighting or other factors which may affect such indexes of inflationary rates. Any amounts reported are not necessarily representative of cost of sales and depreciation which might be incurred in any future period or the amounts for which the assets could be sold.

"Constant dollar" adjustments make use of the Consumer Price Index for all Urban Consumers as the measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power.

The objective of "current cost" adjustments is to reflect the effects of changes in the specific prices of the inventories and property, plant and equipment actually used in the Company's continuing operations so that measures of these assets and their consumption reflect the current cost of replacing these assets, rather than the historical cost amounts actually expended to acquire them. Inventories have been restated to $59,432,000 in 1981 to reflect current costs and any changes in depreciation due to the restatement of property, plant and equipment to current costs. Property, plant and equipment has been restated to a current costs of $52,866,000 in 1981 using fair market values and appropriate indexes. Depreciation of continuing operations has been calculated based on the restated property values. The Company has used the same depreciation methods and estimates for the constant dollar and current cost calculations as for the primary financial statements. Depreciation increased due to inflationary increases on the costs of equipment owned.

The constant dollar and current cost inventory adjustments to cost of sales relate only to FIFO valued inventories as the LIFO method charges current costs directly to cost of sales.

The five-year comparison of selected supplementary financial data adjusted for changing prices has been restated to remove the effects of the discontinued Automotive segment.

Summary of 1981 Earnings From Continuing Operations Adjusted For Changing Prices

(Thousands of average 1981 dollars, except per share figures)

Earnings from continuing operations as reported in the statement of consolidated earnings ($.10 per common share)	$ 1,212
Adjustments to restate costs for the effect of constant dollars	
Cost of sales	(1,270)
Depreciation	(6,674)
Loss from continuing operations adjusted for constant dollars ($.71 per common share)	(6,732)
Adjustments to reflect the differences between constant dollars and current costs	
Cost of sales	(256)
Depreciation	(12)
Loss from continuing operations adjusted for changes in current costs ($.74 per common share)	$ (7,000)
Loss from decline in purchasing power of net amounts owned	$ 2,285
Increase in current costs of inventories and property, plant and equipment held during the year	$ 12,445
Effect of increase in constant dollars	3,224
Excess of increase in current costs over increase in constant dollars	$ 9,221

Five-Year Comparison of Selected Supplementary Financial Data of Continuing Operations Adjusted For Changing Prices

	1981	1980	1979	1978	1977
	(Thousands of average 1981 dollars, except per share figures)				
Net sales					
As reported*	**$ 273,675**	272,145	266,691	242,552	274,946
In average 1981 dollars	**273,675**	300,374	334,164	338,117	412,693
Earnings (loss) from continuing operations					
As reported*	**1,212**	(1,482)	4,495		
In average 1981 dollars	**1,212**	(1,636)	5,630		
Constant dollars	**(6,732)**	(7,221)	(5,063)		
Current costs	**(7,000)**	(9,795)	(6,216)		
Earnings (loss) per common share					
As reported*	**.10**	(.17)	.44		
In average 1981 dollars	**.10**	(.19)	.55		
Constant dollars	**(.71)**	(.77)	(.54)		
Current costs	**(.74)**	(1.03)	(.66)		
Net assets at year-end					
As reported*	**111,563**	131,984	146,017		
In average 1981 dollars	**111,563**	145,674	182,874		
Constant dollars	**124,158**	189,517	213,109		
Current costs	**131,927**	182,598	218,930		
Increase (decrease) in current cost amounts of inventory and property, plant and equipment, net of inflation	**9,221**	(6,982)	(5,750)		
Gain (loss) from decline in purchasing power of net amounts owed (owned)	**(2,285)**	5,780	7,429		
Cash dividends per common share					
As reported*	**—**	.15	.20	.20	.20
In average 1981 dollars	**—**	.17	.25	.28	.30
Market price per common share at year-end					
As reported*	**9.00**	8.63	7.00	7.13	5.63
In average 1981 dollars	**$ 9.00**	9.52	8.29	9.57	8.24
Average Consumer Price Index	**272.4**	246.8	217.5	195.4	181.5

*As reported in thousands of actual dollars, except per share figures.

ACCOUNTANTS' REPORT AND STOCK DATA

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
Toledo, Ohio

The Board of Directors
Questor Corporation:

We have examined the consolidated balance sheets of Questor Corporation and subsidiaries as of December 31, 1981 and 1980 and the related statements of consolidated earnings, shareholders' equity, and changes in financial position for each of the years in the three-year period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Questor Corporation and subsidiaries at December 31, 1981 and 1980 and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied except for the change in 1980, with which we concur, in the method of valuing domestic inventories as described in the Financial Review on page 23.

PEAT, MARWICK, MITCHELL & CO.

February 9, 1982

Stock Data

This table sets forth the high and low selling price per share for Questor Corporation common stock and prior preferred stock on the New York Stock Exchange and the dividends for the periods indicated. There were approximately 4,800 holders of record of common stock and 300 holders of prior preferred stock at December 31, 1981.

	1981			1980		
Quarters						
Common Stock	High	Low	Dividend	High	Low	Dividend
First	**8⅞**	7	—	7⅞	4½	.05
Second	**9**	**7½**	—	5⅝	4⅝	.05
Third	**10⅝**	**7¾**	—	9¾	5	.05
Fourth	**9½**	**7¾**	—	10¼	7¼	—.
Prior Preferred Stock						
First	**19¼**	**17¼**	**.50**	20¾	16	.50
Second	**19¼**	**17**	**.50**	17¾	15¾	.50
Third	**20½**	**17¾**	**.50**	22	18	.50
Fourth	**20½**	**19**	**.50**	22¼	19½	.50

FIVE-YEAR SELECTED FINANCIAL DATA

Questor Corporation and Subsidiaries
Five-Year Selected Financial Data
and Management's Discussion and Analysis
of Financial Condition and Results of Operations

	1981	1980	1979	1978	1977
		(Thousands of dollars, except per share figures)			
Operating Results					
Net sales	$ 273,675	272,145	266,691	242,552	274,946
Earnings (loss) from continuing operations	$ 1,212	(1,482)	4,495	809	4,636
Earnings (loss) from discontinued Automotive segment	(21,577)	(11,106)	4,218	7,109	(1,590)
Net earnings (loss)	$ (20,365)	(12,588)	8,713	7,918	3,046
Earnings (loss) per common share					
Continuing operations	$ .10	(.17)	.44	.06	.46
Discontinued Automotive segment	(2.20)	(1.15)	.44	.74	(.16)
	$ (2.10)	(1.32)	.88	.80	.30
Cash dividends declared per common share	$ —	.15	.20	.20	.20
Other Data					
Total assets	$ 219,339	312,029	310,750	332,106	326,161
Bank loans and current maturities of long-term debt	$ 8,313	16,137	22,852	37,231	18,137
Long-term debt	$ 32,895	63,748	63,257	76,646	99,398

Overview
In the past three years there have been dramatic changes in the scope and composition of the Company's activities. The more significant restructuring measures by year are highlighted as follows:

1981

a) Exit of the Automotive segment with the sale of the domestic Automotive operations and adoption of a plan to dispose of non-U.S. Automotive operations.

Pursuant to this plan, a definitive agreement has been signed to sell the Canadian operations with a scheduled closing in the first quarter of 1982. Management is also actively engaged in negotiations on the remaining non-U.S. operations and plans to dispose of these operations in 1982.

The sale of domestic Automotive operations and the anticipated loss from disposition of the non-U.S. operations resulted in an after-tax loss in the fourth quarter of $24,919,000.

b) Implementation of a plant realignment and consolidation effort in the Spalding Recreational and Leslie-Locke Home Environmental segments.

A nonrecurring charge of $9,600,000 before tax was made to provide primarily for the cost of a plant realignment and consolidation program for the Recreation and Home Environmental segments. This asset reduction program will be accomplished under a comprehensive plan to be substantially completed during 1982.

c) Shift to a decentralized entrepreneurial management structure for the continuing business segments with the Corporate office functioning in the areas of centralized financial control, planning and investment evaluation.

1980

The Company provided for the cost to discontinue its worldwide ski operations and to close certain manufacturing operations. The ski business had sustained substantial operating losses in 1980 and 1979 due to depressed market conditions. The 1980 nonrecurring expense included in continuing operations was $9,300,000 before tax.

FIVE-YEAR SELECTED FINANCIAL (Continued)

1979

Recreation discontinued manufacturing tennis balls and rackets in the United States and sold its majority interest in a Belgium racket manufacturer. The 1979 nonrecurring expense was $415,000 before tax.

The subsequent analysis of the financial condition and results of the operations of the Company is restricted to its continuing operations. The continuing operations fall into three industry segments: Recreation, Juvenile and Home Environmental. From a management perspective, the continuing operations function as decentralized entrepreneurial business units—Spalding, Evenflo, Juvenile Furniture and Leslie-Locke. All industry segments are highly competitive. Weather is also an extremely important factor with respect to Spalding because of its concentration in golf products and the influence on rounds played annually. Volume of Juvenile products (Evenflo and Furniture) is directly affected by the birth rate and the percentage of first births. Leslie-Locke operates in the Home Environmental section and its volume is directly related to conditions in the home improvement and construction markets.

Continuing Operations

Net sales for continuing operations were $273,675,000 in 1981 and represent an 11% increase from the previous year after excluding ski operations divested late in 1980. Earnings from continuing operations before nonrecurring expense and income taxes increased in 1981.

Over the three-year period net sales of the Recreation segment reflect declines from $164,224,000 in 1979 to $160,499,000 in 1980 and to $142,093,000 in 1981. These declines result principally from the divestiture of ski operations and pruning of unprofitable products. Operating profits declined in the Recreation unit in 1980 from 1979 due to unfavorable results in the ski operations.

In the Juvenile segment results have reflected steady improvements in both sales and operating profits from year to year. Increased births and success with innovative and functional new products for infants were the principal contributing factors.

The Home Environmental unit has reflected consistent growth in net sales from 1979. However, operating profits were lower in 1981 due to margin pressures and volume resistance reflecting depressed consumer spending and economic conditions in the housing and home improvement areas.

An improved gross profit in the three year period reflects the elimination of low margin product lines and solid improvements in manufacturing and administrative costs. Advertising expenses during the period for branded products have been increased to maintain favorable market share positions for our distinctive products. Interest expense was sharply reduced in 1981 from prior levels due to the sharp focus on working capital and other asset reduction programs.

Liquidity

The divestiture of the Automotive segment and the other business realignment measures were made to permit the achievement of acceptable return on investment levels and to provide funds for growth and expansion. In the aggregate, cash realization under these 1981 programs will exceed $65,000,000.

The financial position of the Company at the end of 1981 was much improved as evidenced by the substantial cash reserve ($43.8 million), strong working capital ratio (2.5 to 1), and an improved debt as a percent of capitalization ratio (27.0%). Because of the strong and liquid financial position, the Company terminated its standby domestic bank credit arrangements in January, 1982 and will renegotiate more favorable arrangements consistent with the needs of the continuing operations. The seasonal cash requirements for the Company have changed substantially from prior experience. The first quarter continues to require a seasonal cash infusion for working capital; however, current cash is adequate to meet such requirements without the necessity for additional borrowings.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Edward H. Alexander, private investor
Reuben W. Askanase, private investor
F. Michael Geddes, president, Geddes & Company, a consulting and investment firm
John Goerlich, a founder of the company
Dan W. Lufkin, chairman of the board, consultant and private investor
James D. Milligan, president and chief executive officer
Cyril R. Porthouse, private investor
Paul Putman, president, AP Parts Company, a division of APX Group, Inc., a manufacturer of automotive exhaust systems
Edward L. Scarff, private investor
Morris Shilensky, counsel to the law firm of Vedder, Price, Kaufman, Kammholz and Day
William F. Spengler, Jr., director, Owens-Illinois, Inc., a manufacturer of packaging products; president and chief operating officer of domestic operations, Owens-Illinois, Inc.
Adolph O. Susholtz, private real estate investor

EXECUTIVE COMMITTEE

Edward L. Scarff, Chairman
F. Michael Geddes
John Goerlich
Dan W. Lufkin
James D. Milligan
Paul Putman

AUDIT COMMITTEE

F. Michael Geddes, Chairman
Reuben W. Askanase
Cyril R. Porthouse
William F. Spengler, Jr.

COMPENSATION COMMITTEE

Dan W. Lufkin, Chairman
F. Michael Geddes
John Goerlich
James D. Milligan
Edward L. Scarff

EXECUTIVE OFFICERS

D. W. Lufkin, chairman of the board
J.D. Milligan, president, chief executive officer
D. J. Byrnes, senior vice president,chief operating officer
P. L. Whiting, vice president-finance
R. R. Hessler, vice president
S. J. Dryer, controller
J. G. Zimmerman, treasurer
J. T. Nolan, secretary and general counsel

TRANSFER AGENTS

Citibank, N.A., New York, New York
Ohio Citizens Bank, Toledo, Ohio

REGISTRARS

The Chase Manhattan Bank, New York, New York
First National Bank of Toledo, Toledo, Ohio

AUDITORS

Peat, Marwick, Mitchell & Co., Toledo, Ohio

CABLE ADDRESS

Questor-Tol

STOCK LISTED BY:

The New York Stock Exchange
Pacific Stock Exchange
Symbol: IQ

NOTICE OF ANNUAL MEETING

The annual meeting of shareholders will be on Tuesday, April 27, 1982, at nine o'clock in the morning, E.D.T., at The Toledo Club, Fourteenth Street between Madison and Jefferson Avenues, Toledo, Ohio.

FORM 10-K

A COPY OF THE FORM 10-K FOR QUESTOR CORPORATION, AS WILL BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WILL BE AVAILABLE WITHOUT CHARGE, UPON WRITTEN REQUEST TO:

Questor Corporation
Public Relations Department
One John Goerlich Square
Toledo, Ohio 43691

Questor Corporation
One John Goerlich Square, Toledo, Ohio 43691
419/259-3461